



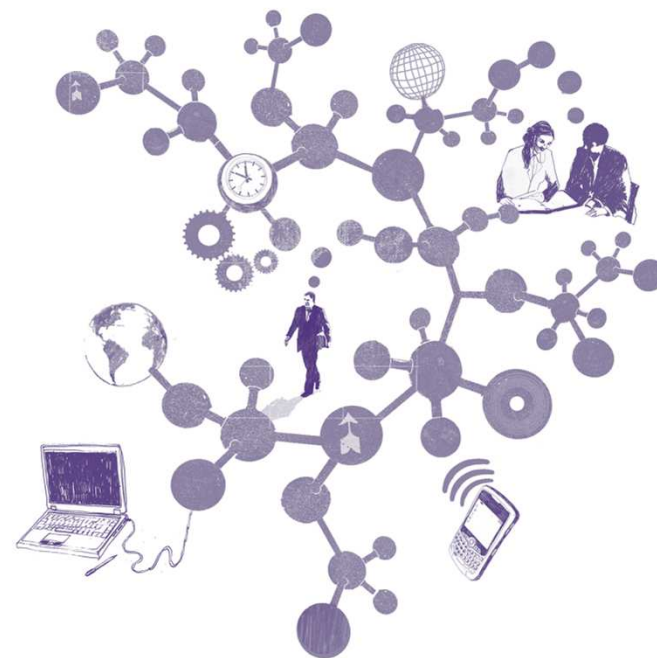
The Annual Audit Letter for Wirral Council

Year ended 31 March 2013

28 October 2013

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Wirral Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)

The certification of grant claims and returns is currently in progress.

This Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 30 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 8 March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the Council's accounts which give a true and fair view of the financial position as at 31 March 2013 and its income and expenditure for the year;
- an unqualified opinion on Merseyside Pension Fund accounts which give a true and fair view of the financial position as at 31 March 2013 and its income and expenditure for the year;
- a qualified "adverse" conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work highlighted that the Council's arrangements for securing financial resilience were inadequate during the year. More robust arrangements have now been put in place and are taking effect. Our work also highlighted that the Council's arrangements for challenging how it secures economy, efficiency and effectiveness were inadequate during the year. This is recognised in the Council's Improvement Plan;
- an unqualified opinion on the council's Whole of Government Accounts submission;
- the certificate of completion of the audit is still outstanding pending consideration of a matter raised by local electors;
- our work on certification of grant claims is on-going, as expected at this time of year. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

Executive summary

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

Wirral Council experienced a particularly challenging year during 2012/13 with the loss of key officers, the need to make significant savings, the introduction of a voluntary Improvement Board and continuing concerns raised by regulators. Residents also raised a number of concerns with us.

A new Chief Executive and Interim Director of Resources joined the Council in Autumn 2012 and started to put in place improved arrangements to manage financial and governance risks and secure better value for money. Some of these arrangements are now in place and are taking effect. Future financial challenges and changes in the overall governance and control environment will continue to test these arrangements and whilst improvements have been made some significant risks still remain, as in many other councils. This is recognised by the Council and plans are in place or being drawn up to respond to the challenges.

The audit identified only one non-material misstatement and a small number of disclosure errors. We also raised concerns about a number of internal control deficiencies that we identified during the course of our audit, some of which have been highlighted in previous years.

Acknowledgements

This Letter has been agreed with the Chief Executive, Strategic Director, Transformation and Resources and the Interim Director of Finance and will be presented to the Audit and Risk Management Committee on 25 November 2013.

We recognise that this has been a particularly challenging year for the Council and would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
28 October 2013

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

We issued a unqualified opinions on the Council's and Merseyside Pension Fund's 2012/13 accounts on 30 September 2013 and an unqualified Whole of Government Accounts opinion on 4 October 2013.

The certificate of completion of the audit has not been given as we are still considering matters brought to our attention by local authority electors.

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the Council's accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Working papers were made available from the start of the audit fieldwork, which commenced on 1 July 2013. The standard of the accounts, working papers and responses to our queries was not at as high a standard as in the previous year, although we are aware of the significant pressures on the finance team due to the in year changes. Despite these pressures our audit identified only one non-material misstatement of £1.2 million and a small number of disclosure errors.

Issues arising from the audit of the Council's accounts

The Council decided not to adjust for the misstatement of £1.2 million as although it would have reduced assets in the balance sheet and increased expenditure, the sum was not material to the accounts and would not have impacted upon the reported financial position at 31 March 2013.

We raised concerns about a number of internal control deficiencies that we identified during the course of our audit in respect of:

- Accounts payable - there is a risk the Council is committed to expenditure that has not been authorised in line with standing orders and processes;
- Property, plant and equipment - the Council may not have sufficient controls in place to assure themselves of the accuracy of Property, Plant and Equipment disclosures.

- Employee remuneration – there is a risk to a key control in respect of starters
- Journals – documentation relating to journal authorisation processes was not retained during the year thus reducing the audit trail.

Management are taking action to implement our recommendations.

Preparation of and issues arising from the audit of Merseyside Pension Fund's accounts

The financial statements and supporting working papers were prepared to a good standard, and we received prompt and full responses to our requests for additional information during the course of the audit.

We identified one unadjusted error in the financial statements for 2012/13. Property rental income in the fund account was understated by £3.194m, and the total net assets of the fund also understated by £3.194m. If the accounts had been amended for this error then the total net assets of the fund would have increased from £5.819bn to £5.822bn. Management will reflect this income in the financial statements for 2013/14.

Annual governance statement (AGS)

The AGS was presented with the pre-audit accounts and signed as appropriate by the Chief Executive and Leader in line with the Accounts & Audit regulations and Code. Our review during the audit identified a number of areas for improvement and compliance with CIPFA best practice, which the Council have taken on-board.

Audit of the accounts

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Risk Management Committee at the Council). We presented our report to the Audit and Risk Management Committee on 18 September 2013 and updated this and circulated it to officers and members on 30 September 2013. We summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

We also issued an unqualified opinion on Merseyside Pension Fund's 2012/13 accounts on 30 September 2013.

Our Audit Report stated that we could not formally conclude the audit and issue an audit certificate until we had:

- completed our consideration of matters brought to our attention by local authority electors – these matters are still outstanding but we are satisfied that they do not have a material effect on the financial statements or a significant impact on our value for money conclusion; and
- completed our work on the Council's Whole of Government Accounts – this work is now complete and we issued an unqualified opinion on 4 October 2013 in line with the deadline.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

We issued a qualified 'adverse' conclusion and a 'report by exception' in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2013.

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Audit Commission's guidance also requires us to report by exception on any other significant additional matters that come to our attention and which we consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that the Council's arrangements for securing financial resilience were inadequate during the year. More robust arrangements have now been put in place and are taking effect but the Council accepts that for 2012/13 it was less than adequate and improvements were needed in its financial management. Further details are provided in our Financial Resilience report issued in September 2013.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work highlighted that the Council's arrangements for challenging how it secures economy, efficiency and effectiveness were inadequate during the year. These issues are acknowledged in the Authority's Improvement Plan and Annual Governance Statement. Further details are provided in our Audit Findings Report issued in September 2013.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, the matters reported in the basis for adverse conclusion paragraph in the Audit Report prevent us from being satisfied that in all significant respects Wirral Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. We issued a qualified 'adverse' value for money conclusion on 30 September 2013.

Report by exception

We issued a report by exception relating to significant weaknesses in the Authority's arrangements for:

- promoting and demonstrating the principles and values of good governance; and
- managing risks and maintaining a sound system of internal control.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

Fees

| | Per Audit plan £ | Actual fees £ |
|-----------------------------|---------------------|------------------|
| Council Audit Fee | 211,680 | 211,680 |
| Grant certification fee (1) | 42,600 | 42,600 |
| Total fees | 254,280 | 254,280 |

Fees for other services

| Service | Fees £ |
|--|----------------------|
| Independent review of Wirral Council's BIG and ISUS schemes (Forensics department tender) | 50,000 (estimate) |

Note:

- (1) Certification work is on-going and this is our current estimate. The final fee will reported to the Audit and Risk Management Committee later in the year in our annual certification report.
- (2) The fees for Merseyside Pension Fund have been recently been finalised and agreed by the Audit Commission as £39, 062.00.

Reports issued

| Report | Date issued |
|-----------------------------------|--|
| Audit Plan | 8 March 2013 |
| Audit Findings Report | 4 September 2013 updated and re-issued 30 September 2013 |
| Grant Certification report | Due December 2013 |
| VfM – Financial Resilience Report | 4 September 2013 |
| Annual Audit Letter | 28 September 2013 |



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